Gujarat Themis Biosyn Limited

August 04, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	2.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	3.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	5.00 (Rs. Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Revision in the ratings assigned to the bank facilities of Gujarat Themis Biosyn Limited (GTBL) factor in growth in scale of operation and improvement in profit margins due to change in line of business from job work basis to own manufacturing, comfortable capital structure and debt coverage indicators and adequate liquidity position marked by NIL utilization of working capital limit and in healthy cash & bank balance in FY22 and Q1FY23.

The ratings continued to derive strength from experienced and qualified promoters and management team, niche product offerings albeit high dependency on few products, accredited manufacturing facilities, healthy profit margins and comfortable capital structure and debt coverage indicators.

The ratings, however, continue to be constrained by moderate scale of operation, working capital intensive nature of operations, project execution and funding risk, customer and supplier concentration risk, intense competition and presence in a fragmented industry and susceptibility of profitability margins to raw material prices.

Key Rating Sensitivities

Positive Factors

- Increase in total operating income beyond Rs. 250 crore while maintaining operating profitability at present level on a sustained basis
- Improvement in working capital cycle below 50 days on a sustained basis

Negative Factors

- Deterioration in overall gearing beyond 1x on a sustained basis/
- Inability of the company to arrange of funds and completion of project in timely manner

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified promoters and management team

GTBL is actively managed by promoters of Themis Medicare Limited (TML) since 2007. Dr. Dinesh Patel who is the Executive Vice Chairman & his son Dr. Sachin Patel, MD & CEO has Ph.D in Medicinal Chemistry by qualification. He has been the recipient of several industrial accolades and under his guidance and control, GTBL has manged to overcome operational losses. Dr. Sachin Patel holds a doctorate in Biological Chemistry from Christ's college, University of Cambridge, UK. Furthermore, the promoters are supported by well qualified and experienced second tier management.

Niche product offerings albeit high dependency on few products

The company is engaged in manufacturing of APIs namely Rifamycin S and Rifamycin O using fermentation process. Rifamycin S is an intermediate for manufacturing drug Rifampicin and Rifamycin O is an intermediate for manufacturing drug Rifaximin. Rifamycin is used for treatment of several types of bacterial infections, including tuberculosis, Mycobacterium avium complex, leprosy, and Legionnaires' disease. Rifaximin is used for treatment of diarrhoea, irritable bowel syndrome, and hepatic encephalopathy. Owing to complex fermentation capabilities with high capex involved ,there is limited entry barrier.

Raw material sourcing and accredited manufacturing facilities

The key raw material for GTBL is Rifabutin which is sourced through domestic market. The company has long standing relationship with its suppliers thereby ensuring timely supply of key raw material. The company's manufacturing plant is located in Vapi, District- Valsad, Gujarat the same is CGMP approved. The company has installed capacity for manufacturing 10,000 KG Rifamycin C per month and 6,000 KG Rifamycin O per month. The average capacity utilisation ranges between 60-70% p.a.

Healthy profit margins

Prior to FY20, company was engaged in contract manufacturing of Rifamysin S for Lupin Limited. During, FY20, the management decided to change business model from contract manufacturing to manufacturing and sales model as a result the company's operating profitability has significantly improved. Further, the PBILDT margin of the company continued to remain

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

healthy and improved to 50.51% in FY22 from 44.51% in FY21 on account of increase in sales realization to Rs. 6536.76/- per kg in FY22 from Rs. 6245.47/- per kg in FY21, decline in cost of material consumed (from 17% of total sales in FY21 to 14% of total sales in FY22) and savings in employee cost. Further with improvement in PBILDT margin and decline in interest cost, its PAT margin also improved to 37.98% in FY22 vis-à-vis 33.32% in FY21. Further PBILDT margin and PAT margin of the company remained at 52.19% and 38.32% respectively in Q1FY23 (vis-à-vis 53.20% and 38.49% respectively in Q1FY22).

Comfortable capital structure and debt coverage indicators
GTBL's capital structure stood comfortable in past due to no reliance on external debt to fund its business operation. Further the same improved with overall gearing of 0.01 times as on March 31, 2022 vis-à-vis 0.07 times as on March 31, 2021 on account of increase in net worth base with accretion of healthy profit to reserves and decline in total debt in FY22. Further debt coverage indicators of the company continued to remain comfortable with interest coverage ratio remained at 72.98 times in FY22 vis-à-vis 42.09 times in FY21 on account of improvement in profitability and reduced interest cost and total debt to gross cash accruals of 0.03 times in FY22 vis-à-vis 0.15 times in FY21 on account of increase in gross cash accruals and decline in total debt in FY22.

Key Rating Weaknesses:
Moderate scale of operations
GTBL's scale of operation grew by 27% to Rs. 114.86 crore in FY22 vis-à-vis Rs. 90.56 crore in FY21 on account of increase in quantity sold (174689 kg in FY22 from 142167 kg in FY21) with increased demand of the products in FY22. Along with the same, tangible net worth of the company also increased significantly to Rs.103.32 crore in FY22 vis-à-vis Rs. 69.95 crore in FY22 with accretion of healthy profit to reserves. Further company has achieved sales of Rs. 46.37 crore in Q1FY23 vis-à-vis Rs. 33.57 crore in Q1FY22. However, despite of growth in its scale of operation, it continued to remain at moderate level.

Working capital intensive nature of operation
GTBL's operation remained working capital intensive and cycle elongated to 56 days in FY22 vis-à-vis 39 days in FY21 mainly on account of funds stuck in inventory and debtors. On the other hand, company receives credit period of two months leads to average creditors' period of 63 days in FY22 and 74 days in FY21. Therefore, operation remained working capital intensive and working capital requirement is met through internal accruals. However, despite stretched working capital cycle, its working capital limit of Rs. 2 crore remains unutilized for last twelve months ended June 2022 on account of its adequate liquidity position reflected in free cash and bank balance of Rs. 32.70 crore as on March 31, 2022.

Project funding and execution risk
GTBL has undertaken capex wherein it is setting up warehouse and research and development department at its existing plant located at Vapi, district- Valsad. Total estimated cost of the project is Rs. 32 crore and entire project cost is to be funded through internal accruals. The land for the same is already in place and company has incurred Rs. 18 crore towards execution of the project through internal accruals till July 28, 2022. Project was started in June 2021 and is expected to be completed in December 2022. Thus, going forward GTBL's ability to arrange the sufficient funds to complete the project in timely manner without any cost and time overrun and subsequent stabilization of the same remains critical from credit perspective.

Customer and supplier concentration risk
The company caters to only two customers i.e. Lupin Limited contributing 45% of sales and Optrix Laboratories Private Limited contributing balance 55% of sales. The company has 'take or pay' agreement with Optrix Laboratories Private Limited which is renewed annually and has contract with Lupin Limited for five years hence concentration risk is mitigated to an extent. However, any major setback in financial profile of these clients could significantly impact growth of GTBL. The company plans to onboard more customers over medium term to reduce concentration risk. Further, the supplier profile of the company also remained concentrated with top 10 suppliers contributing 79% of the total purchases in FY22 vis-à-vis 61% of the total purchases in FY21.

Intense competition and presence in a fragmented industry and susceptibility of profitability margins to raw material prices
GTBL's profitability margins are susceptible to raw material price volatility. Moreover, the Indian pharmaceutical industry (IPI) comprises mainly of formulations, active pharmaceutical ingredients (API) and contract research and manufacturing services (CRAMS) segments. Although API has shown a healthy growth, the industry remains highly competitive. By volume, Indian companies produce about one-fifth of the global generic medicines, nearly half of which was by way of exports witnessing increasing competition.

Liquidity analysis: Adequate
The liquidity position remained adequate marked by sufficient cushion in accruals vis-à-vis repayment obligations and adequate free liquidity in the form of fixed deposit of Rs.32.70 crore as on March 31, 2022 and Rs. 50 crore as on July 28, 2022. Its working capital requirement is funded by internal accruals and also has cash credit limit of Rs. 2 crore which remains unutilized during past twelve months ended June 2022. Further, the current ratio and quick ratio stood comfortable at 4.99 times and 4.31 times respectively as on March 31, 2022 (vis-à-vis 3.95 times and 3.57 times respectively as on March 31, 2021). The cash flow from operations was positive at Rs.30.26 crore in FY22 (vis-à-vis positive at Rs.36.07 crore in FY21).

Analytical approach: Standalone

Applicable Criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical

About the Company
Gujarat Themis Biosyn Limited (GTBL) was incorporated in 1981 and it is engaged in manufacturing of APIs namely Rifamycin S and Rifamycin O. Rifamycin S is an intermediate for manufacturing drug Rifampicin (Antibiotic used for treatment of several types of bacterial infections, including tuberculosis, Mycobacterium avium complex, leprosy, and Legionnaires' disease). Rifamycin O is an intermediate for manufacturing drug Rifaximin (Antibiotic used for treatment of traveller's diarrhoea, irritable bowel syndrome, and hepatic encephalopathy). These are niche products. The company's manufacturing plant is located in Vapi, district- Valsad, Gujarat the same is CGMP approved. The company has installed capacity for manufacturing 10,000 Kg Rifamycin C per month and 6,000 Kg Rifamycin O per month. The average capacity utilisation ranges between 60-70% p.a.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	90.56	114.86	46.37
PBILDT	40.31	58.02	24.20
PAT	30.18	43.62	17.77
Overall gearing (times)	0.07	0.01	NA
Interest coverage (times)	42.09	72.98	403.33

A: Audited, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	2.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	3.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	2.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Jul-21)	-	-
2	Non-fund-based - ST-BG/LC	ST	3.00	CARE A3+	-	1)CARE A3 (07-Jul-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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